



3 Reasons Why Toronto-Dominion Bank's Shares Could Soar

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)), the second-largest bank in Canada in terms of total assets, has watched its stock underperform the overall market in 2015, falling about 2% as the TSX Composite Index has risen over 1%. However, I think it could widely outperform from this point forward. Let's take a look at three of the primary reasons why this could happen and why you should be a buyer of the stock today.

1. Strong second-quarter growth to support a near-term rally

TD Bank released better-than-expected second-quarter earnings results on May 28, but its stock has responded by falling about 3% in the trading sessions since. Here's a breakdown of 10 of the most notable statistics from the report compared with the year-ago period:

1. Adjusted net income increased 4.6% to \$2.17 billion
2. Adjusted earnings per share increased 4.6% to \$1.14, surpassing analysts' expectations of \$1.11
3. Adjusted revenue increased 4.1% to \$7.74 billion, surpassing analysts' expectations of \$7.48 billion
4. Net interest income increased 4.3% to \$4.58 billion
5. Non-interest income increased 3.9% to \$3.16 billion
6. Total assets increased 13.5% to \$1.03 trillion
7. Total deposits increased 17.4% to \$652.09 billion
8. Total loans managed, net of loans securitized, increased 11.1% to \$504.41 billion
9. Adjusted efficiency ratio expanded 200 basis points to 54.8%
10. Book value per share increased 13.9% to \$30.90

2. The stock trades at inexpensive forward valuations

At today's levels, TD Bank's stock trades at just 11.9 times fiscal 2015's estimated earnings per share of \$4.55 and only 11.3 times fiscal 2016's estimated earnings per share of \$4.82, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 13.7 and the industry average multiple of 13.4.

I think TD Bank's stock could consistently command a fair multiple of at least 13.5, which would place its shares upwards of \$61 by the conclusion of fiscal 2015 and upwards of \$65 by the conclusion of fiscal 2016, representing upside of more than 12% and 19%, respectively, from current levels.

3. A management team dedicated to maximizing shareholder value

TD Bank pays a quarterly dividend of \$0.51 per share, or \$2.04 per share annually, giving its stock a 3.75% yield at today's levels. The company has also increased its dividend nine times in the last four years, making it one of the top dividend-growth plays in the financial sector today, and its consistent free cash flow generation could allow for another increase in the second half of this year.

Is now the time to buy shares of TD Bank?

I think Toronto-Dominion Bank represents one of the best long-term investment opportunities in the market today. Its strong second-quarter earnings results could support a near-term rally, its stock trades at inexpensive forward valuations, and it has a 3.75% dividend yield with a long track record of increasing its payout. Foolish investors should strongly consider establishing positions right now.

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